

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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OFFICE OF THE SECRETARY

In the Matter of)	
)	
Price Cap Regulation of Local)	
Exchange Carriers)	CC Docket No. 93-179
)	
Rate of Return Sharing and)	
Lower Formula Adjustment)	

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT), hereby files its comments pursuant to the NPRM released July 6, 1993 in this docket.¹ The Commission's proposal to further modify the local exchange carrier (LEC) price cap plan at this time is premature given the upcoming comprehensive performance review. Further, as the Commission noted in its NPRM, the type of change envisioned by the Commission's proposal reduces efficiency incentives. To the extent that such incentives are affected, the Commission should consider these changes in the context of all other changes to the LEC price cap plan in the performance review.

I. REGULATION SHOULD RECOGNIZE THE PRESENCE OF INCREASED COMPETITION AND TECHNOLOGICAL ADVANCES.

The subject of requiring the add-back of shared amounts (and similarly add-back of the lower formula adjustment amounts) has been informally discussed within the industry for some time. A rule change on this subject, however, is premature just prior to

¹ Price Cap Regulation of Local Exchange Carriers, Rate of Return Sharing and Lower Formula Adjustment, CC Docket No. 93-179, Notice of Proposed Rulemaking, (FCC 93-325) (released July 6, 1993) (NPRM).

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the performance review where one of the issues for debate will be the elimination of sharing.

The Commission has recently reemphasized that the goal of price cap regulation is to provide incentives for increased efficiency.² Nevertheless, the Commission also recognizes here that the proposed rule change would "reduce the efficiency incentives" in the LEC price cap plan.³ To the extent that the addition of add-back reduces LEC's efficiency incentives, then SWBT requests that the proposed change be addressed in the performance review.

Regulatory reform should result in streamlined regulation where competitive pressures are sufficient to regulate prices and earnings. The performance review of the LEC price cap plan would be a more appropriate forum within which to consider the fundamental rules changes to the price cap sharing contemplated by the current NPRM.

SWBT's views regarding the need to reform the access rules to accommodate the dynamics of markets and technologies are accurately reflected in the United States Telephone Association (USTA) Interstate Access Reform Proposal (IARP).⁴

² Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, Notice of Proposed Rulemaking, (FCC 93-327) (released July 23, 1993), at para 8. (AT&T Price Cap Review NPRM).

³ NPRM, at para. 14.

⁴ The USTA access reform proposal has already been filed with the Commission in CC Docket Nos. 91-213 and 91-141. A copy is attached here as Appendix A.

The need for forward-looking regulatory reform is reflected in the IARP. Also, in August of 1992, Commissioner Andrew C. Barrett confirmed the need to change the current regulatory framework and laid out a plan by which such change could be adopted.⁵

Commissioner Barrett stated that while the Commission in 1992 may not be able to rely upon "the market to set prices for all services, clearly the market is capable of doing so for an increasing number of services." In particular, Commissioner Barrett proposed that the price cap plan should consider letting "the market assume more of the burden" of regulation.

In support, Commissioner Barrett reasoned that imposing an overall rate of return ceiling while only regulating some prices will necessitate a cost allocation scheme that will become increasingly difficult to administer, and that it would be better to "drop the rate of return ceiling while continuing to maintain [the Commission's] ability to regulate prices." Also, he reasoned that ensuring "just and reasonable" prices by restricting earnings or investment is not clearly effective. Finally, he concluded that the new investment and additional expenses required to modernize the telecommunications industry may not be made unless there is an opportunity to earn "higher returns that are commensurate with [the] increased risk" of these new investments.

⁵ "Beyond Price Caps: Escaping the Traditional Regulatory Framework," by Commissioner Andrew C. Barrett, Federal Communications Commission, The Florida Economic Club, August 27, 1992.

There is growing recognition that the allocation of expenses and capital and the calculation of an earned return as a means of determining the reasonableness of rates on regulated services is an increasingly fruitless exercise.⁶ SWBT recommends that the Commission, rather than focusing on the limited issues raised in the NPRM, consider the broader issues raised by

services.⁷ Price cap regulation was designed to encourage the implementation of innovative new services as well as to protect market providers and consumers from cross-subsidization.

The Commission has recently confirmed its expectations that price cap regulation was an improvement over ROR regulation, combining lower rates with effective incentives for improved efficiency and innovative services.⁸ The Commission has also noted that under the AT&T price cap plan AT&T's earnings have risen and its infrastructure has been improved, notably in its technological sophistication.⁹

SWBT agrees with the Commission that pure price regulation, absent earnings regulation, is superior to ROR regulation. Accordingly, ROR regulation aspects of the price cap plan for the LECs, such as sharing, should be eliminated. SWBT LEC sharing requirements provide a disincentive to invest in new and risky technologies.¹⁰

⁷ See, also, fn. 2, supra.

⁸ AT&T Price Cap Review NPRM, at para. 1.

⁹ Price Cap Performance Review for AT&T, CC Docket No. 92-134, Report, (FCC 93-326) (released July 23, 1993), at paras. 10-12.

¹⁰ A pure price regulation plan that places limits directly on the rates carriers may charge, without capping earnings, encourages carriers to increase earnings by enhancing efficiency and introducing innovative new services. In a pure price regulation plan, carriers have an incentive to increase efficiency and invest in the infrastructure because they have the opportunity to maximize the return on shareholder equity over the long run. If, however, there is any significant danger that the benefits of productivity increases will be eliminated because of the carrier's earnings, or, in retrospect, be required to be recaptured through some other form of productivity-capturing adjustments to the regulatory framework, then the incentive to behave efficiently is gutted and the engine of productivity growth is derailed. Sharing dispatches just such

AT&T's price cap plan does not contain sharing. Consequently, AT&T has a stronger incentive to invest in new and risky technologies, knowing that if successful, it has the opportunity to benefit from such deployment.

SWBT also agrees with the Commission's decision to remove a large portion of AT&T's services, those subject to sufficient competition, from price cap regulation. This same streamlined regulation should also apply to LEC services subject to competition. This method of regulation is similar to the positions forwarded in the USTA Interstate Access Reform Proposal (IARP) that is contained in Appendix A.¹¹

a result and should be eliminated.

¹¹ The IARP advocates that the degree of regulation should be tailored to the level of competition in a particular market area.



III. CONCLUSION.

For the foregoing reasons, SWBT respectfully requests that the Commission delay review of its proposal until the performance review of the LEC price cap plan is initiated.

Respectfully submitted,

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**UNITED STATES TELEPHONE ASSOCIATION
INTERSTATE ACCESS REFORM
PROPOSAL**

January 12 , 1993

INTERSTATE ACCESS REFORM PROPOSAL

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INTERSTATE ACCESS REFORM PROPOSAL

EXECUTIVE SUMMARY

USTA believes that the framework of rules used by the Federal Communications Commission (Commission) to regulate the interstate access services provided by local telephone companies has outlived its usefulness. A new framework is urgently needed if the Commission is to achieve its policy goals in a new environment of changing

that services could not be discontinued without appropriate review.

The current elements codified in Part 69 reflect service applications. The access rate structure should instead be based on access categories.¹ The number of codified access categories would be limited to four: Public Policy, Switching, Transport and Other.

The Public Policy access category would be applicable to price cap and non-price cap Local Exchange Carriers (LECs) and could include any elements established for public policy purposes. The Commission would determine elements to be codified within the Public Policy category. The Transport, Switching and Other access categories would be applicable only to non-price cap LECs. For those companies, the Part 69 rules would not codify rate elements below the category level.

Cost allocations would only be required on a limited basis. For price cap LECs, only the End User Common Line charge element within the Public Policy category would require cost allocations. For non-price cap companies, all four access categories would require cost allocations in order to develop the appropriate revenue requirements; costs would not be allocated below the category level, with the exception of rate elements within the Public Policy category.

PRICING FLEXIBILITY

The degree of regulation should be tailored to the level of competition in a particular market area. Currently, the Commission allows LECs to segment study areas into zones comprised of wire centers possessing similar traffic density characteristics. As access market areas become increasingly competitive, an additional dimension that takes into account market competitiveness is needed. USTA proposes a three tier market structure of Initial Market Areas (IMAs), Transitional Market Areas (TMAs) and Competitive Market Areas (CMAs). For LECs which have elected to establish zones, each zone would be designated an IMA. For those companies which have elected not to establish zones, each study area would be designated an IMA. Wire centers may be included in a TMA or certified as a CMA depending on the degree of competitiveness. Rules governing pricing and price management will vary between these market areas.

The current price cap basket design outlined in Part 61 of the Commission's Rules and Regulations should be revised. LECs would then be better able to meet evolving

¹ An access category is a general classification into which access functionalities (e.g., transport, switching, etc.) may be logically grouped.

customer requirements. The following baskets are proposed for incorporation in FCC Part 61: Transport, Switching, Public Policy, and Other. Price cap categories would be established for each IMA. A single price cap category containing all applicable TMAs would be established within each basket. The Public Policy basket would not contain IMA and TMA category designations. CMAs would be outside of price cap regulation.

Once TMAs are initialized, ongoing price management would be regulated much the same way as they are within the IMA, however greater downward flexibility would be permitted within the TMA. Additionally, LECs would be able to respond to a request for proposal (RFP) from a customer with a contract tailored to meet the customer's needs within the TMA. Contract carriage would be permitted for any service in a CMA.

The proposal outlines the filing requirements, including notice intervals and cost and demand support, relevant to each type of filing.

Rate of return prescription and sharing mechanisms are inappropriate within a price cap environment.² Accordingly, USTA proposes that both upper bound sharing and lower bound adjustment mechanisms should be eliminated. Price cap regulation, absent sharing, will provide LECs with greater incentive to invest in the infrastructure because they will have an opportunity to maximize the return on shareholder equity over the long run.

PUBLIC POLICY SUPPORT OBLIGATIONS

Historically, regulators have relied upon the traditional goal of "universal service at reasonable prices" as a guidepost when crafting many of their public policy decisions. This goal has been accomplished by requiring LECs to serve all customers without regard to the economic viability of doing so. The Commission is now adopting policies which further competition in exchange markets. These policies contravene its established goal of promoting universal service. Without reforms to the current support mechanisms, the growth of competition in exchange markets will continue to erode support for universal service.

In order to address this paradox, the Commission must develop new policies to strike a balance between competitive entry and continued public policy support. To achieve this balance, USTA proposes minimal changes to existing, explicit support

² The Commission recognized that price, not earnings, should be its primary concern, and found it unnecessary to impose earnings constraints when it adopted price caps for AT&T.

mechanisms (e.g., USF, Linkup, Lifeline, and Long Term Support). USTA suggests the need to evaluate optional, explicit, intra-company support mechanisms as a means of replacing those which may be implicit in current access service prices. To promote more balanced competition, USTA proposes reforms in the current depreciation process. This includes an accelerated amortization of embedded investments and the ability for LECs to establish their own depreciation rates. USTA also promotes the concept that all service providers should be required to share the recovery of network access costs.

I. Introduction

The objectives of the Commission's original access charge plan included: promoting universal service, eliminating unreasonable discrimination and undue preference in rates for services, promoting efficient use of the local network and preventing uneconomic bypass. The Commission implemented policies and rules to accomplish its objectives while compensating Local Exchange Carriers (LECs) for the costs associated with their Commission prescribed obligation to serve.¹ A balance between conflicting objectives (e.g., promoting universal services and eliminating unreasonable discrimination and undue preference in rates for services) could be achieved because of the limited competition present at that time. If that environment had remained static, the Commission's original access charge plan and its policies and rules would have continued to satisfy its objectives.

The balance that the Commission was able to achieve has been upset. In 1983, competition was limited in the access market. The existing access charge plan was not explicitly designed to address the impacts of competition on the marketplace. Rapidly evolving technologies, new market entrants and new procompetitive directions in Commission policy for access markets have dramatically changed the environment. The current framework of access regulation, characterized by rigid service definitions and pricing restrictions which bear little relation to underlying demand or economic cost, is inconsistent with competition and rapid technological change. Within the current plan, the Commission cannot accommodate competition in the access market and expect to continue to promote universal service. Furthermore, preserving the existing regulatory regimes in this evolving environment will continue to result in unreasonably discriminatory and preferential rates. The development and deployment of new technologies and services will be hindered² and ultimately customers will be precluded from realizing the benefits of a competitive marketplace.

As demonstrated in Appendix A, rule change proposals and waiver requests require

¹ The Unity 1 Memorandum Agreement (1984) and the Unity 1-A Agreement (1986) established specific mechanisms to support the costs associated with universal service and obligation to serve requirements.

² A lengthy series of interstate waiver proceedings has already illustrated continuing difficulties in providing new access services to access markets. Appendix A details many of those services affected by these difficulties. The future promises a host of new services that are not likely to fit neatly into existing regulatory constraints. Appendix B demonstrates the conflicts between forthcoming technologies and services and the existing structure.

lengthy Commission review prior to decision.³ LECs cannot, with any degree of certainty, predict the results of these processes.⁴ In a competitive environment, a year delay to introduce or restructure LEC services is unreasonable and intolerable for most customers. In fact, the expectation of delays caused by the rigidity of the existing access framework discourages the introduction of new LEC access services. Ultimately, these rules serve public interest LECs from responding to customer needs and performing reasonably

LECs are currently the only service providers subject to these rules. If regulation prevents LECs from responding to competition, customers will not realize the full benefits of competition. The Commission's procompetitive policy must not simply support competitors; it must encourage the development of effective competition. The Commission should focus on establishing mechanisms which match the degree of regulation governing a market area to the competitive nature of that area. Some access service market areas are subject to intense competition today; others are transitioning toward such a degree of competitiveness. Carefully designed regulatory constraints, such as price cap regulation, are reasonable for services in some market areas, but inappropriate for others. For services sold in more competitive markets, regulators may legitimately rely on market forces to ensure reasonable rates. Further, the codified, statutory presumption favoring the introduction of new services and technologies⁶ should be incorporated into the rules and procedures under which these new services are evaluated. The support necessary to ensure universal service should be made explicit and should be designed to minimize economic and technical distortion by segregating it from the details of rate and product structures.

II. Current Access Charge Plan

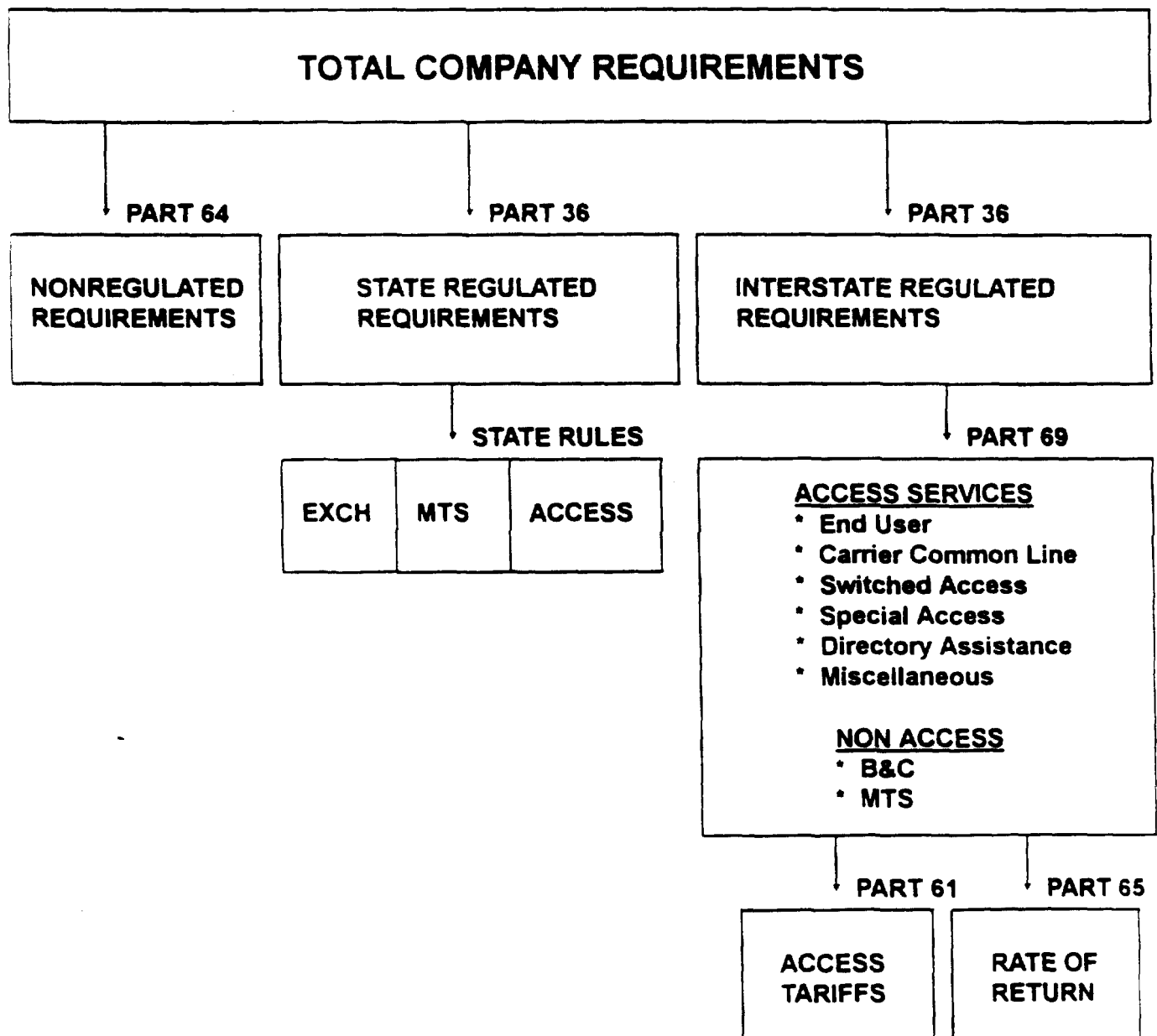
The current interstate access structure, rates, and rules have evolved from the decisions originally adopted in 1983. While some work had previously been done to develop access arrangements through the ENFIA agreements, the rules as finally adopted were the Commission's response to an unexpected, externally determined event: the AT&T divestiture agreement.

Under the current access charge plan, as shown in Figure 1, revenues, costs, taxes, investments and reserves are booked using the Part 32 uniform system of accounts rules. Part 64 rules are used to differentiate regulated from nonregulated activity. Part 36 rules are used to allocate costs among prescribed cost categories and to perform jurisdictional separations. Part 69 rules codify access elements, allocate interstate costs to the access elements, specify ratemaking procedures, including the development of rate levels, for non-price cap LECs and establish an association to file tariffs and collect and distribute pooled revenues. Part 61 rules establish tariff filing requirements, as well as price

⁶ Communications Act Of 1934, Section 7(a) states "It shall be the policy of the United States to encourage the provision of new technologies and services to the public. Any person or party (other than the Commission) who opposes a new technology or service proposed to be permitted under this Act shall have the burden to demonstrate that such proposal is inconsistent with the public interest."

Figure 1: Present Access Service Structure

PRESENT ACCESS SERVICE STRUCTURE



management rules for price cap LECs. Rate of return is controlled by Part 65. Part 43 details reporting requirements of common carriers.

The present price cap structure shown in Figure 2 includes a sharing mechanism, which adjusts price caps downward when earnings exceed an upper threshold. There is also a mechanism to adjust rates upward when earnings fall below a lower threshold.

The regulations permit only a minimum of price flexibility. Prior to the Commission's recent decision in CC Docket No. 91-141, rates were required to be averaged at the study area level. As a result of that decision, LECs have the option of establishing zones once expanded interconnection is available in the study area. In the alternative, LECs can continue to price at the study area level. If the LEC opts to establish zones, the wire centers⁷ in each study area would be assigned to the applicable zone based on traffic density characteristics. Previous pricing mechanisms, like Individual Case Basis (ICB) pricing for DS3 services, are now limited to unique circumstances. Unlike alternative suppliers, exchange carriers generally have no effective mechanism for responding to customer requests for proposals for service packages tailored to their needs. While there are a few services that continue to be excluded from the price cap plan (e.g., packet switched services, ICBs, special construction, etc.), none of the major LEC communication offerings are exempted from meeting all tariff filing requirements and cost rules.

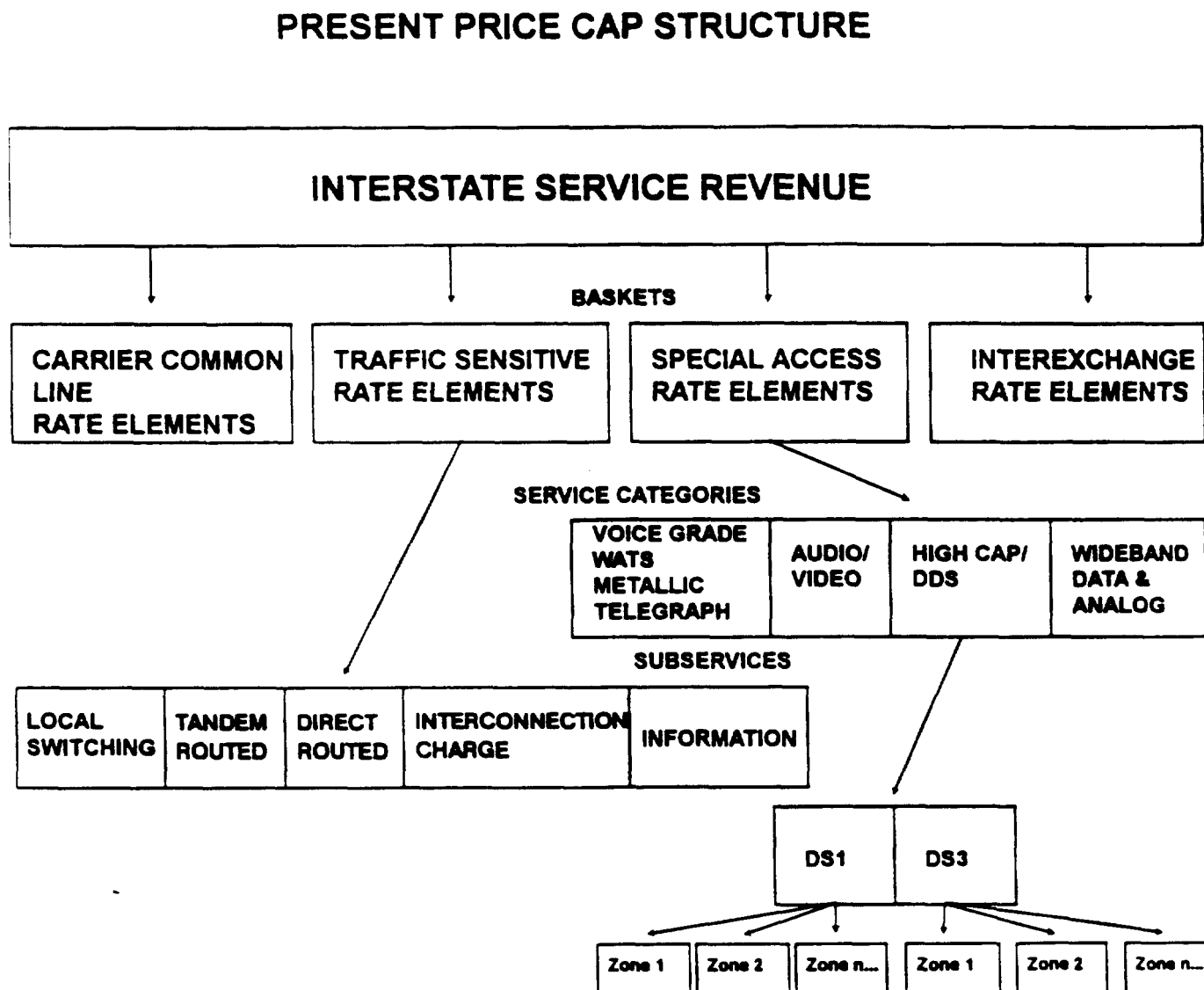
III. Proposed Objectives for a Competitive Environment

The current access charge plan, as implemented in 1983, sought to achieve four objectives: elimination of unreasonable discrimination and undue preference among rates for interstate services; promotion of efficient use of the local network; prevention of uneconomic bypass; and promotion of universal service.

In spite of conflicts inherent in these objectives, the Commission was able to strike a delicate balance. This balance depended primarily on an environment characterized by minimal competition, limited sophistication of customer requirements and slowly evolving technologies. As the environment has changed, the delicate balance previously achieved by the Commission has been upset.

⁷ Usually, a wire center denotes a building in which one or more central offices, used for the provision of Telephone Exchange Services, are located.

Figure 2: Present Price Cap Structure



Pricing: Pricing bands permit prices for service categories and subservices to move within a prescribed range.

Control: Compute Price Cap Index (PCI) for each basket.
 Compute Actual Price Index (API), percentage change in basket prices.
 • Compute Service Band Index (SBI), percentage change in category prices.

Compliance: When API is less than or equal to PCI.
 When SBI is within index range.

Therefore, USTA proposes that the following list of objectives, including some old and some new, would allow the Commission's future interstate access plan to best meet the challenges of an evolving, competitive environment:

- Promote Universal Service
- Promote Introduction of New Services and Technologies
- Support Balanced Competition in Access Markets
- Promote Efficient Use of the Network
- Encourage Development of a National Telecommunications Infrastructure
- Prevent Unreasonable Discrimination
- Minimize Regulatory Burdens

A discussion of each of these proposed objectives can be found in Appendix C.

IV. Interim Measures

Although USTA's Interstate Access Reform Proposal seeks a comprehensive review which integrates all related issues, existing and anticipated regulatory activity within the telecommunications market can be utilized to begin addressing the reforms called for in USTA's proposal.

In CC Docket No. 91-213, the Commission examined a restructure of switched access transport. In an Order (Order) and Further Notice of Proposed Rulemaking (FNPRM) released October 16, 1992, the Commission established an interim switched transport rate structure and pricing plan to be effective for two years beginning November 1, 1993.⁸ The Order, also restricts LECs' ability to alter transport charges.⁹

The Commission also adopted an FNPRM seeking comment on what long-term rate structure and pricing approach would be most reasonable in a competitive environment. The Commission has tentatively concluded that the long term structure would become

⁸ The commencement of the proposed interim transport structure and pricing plan is intended to be concurrent with the resolution of the issues surrounding expanded interconnection for switched access services. See discussion following on CC Docket No. 91-141.

⁹ For example, price cap LECs would separate transports into tandem and direct service categories. Direct will be subject to a +/- 5% rate change while tandem will be limited to a 2% increase and a 5% decrease.

effective November 1995.¹⁰

The Commission has recently released an order in CC Docket No. 91-141, completing an investigation into expanded interconnection for special access services.¹¹ The Commission, in its order, required that LECs offer physical collocation to all interconnectors requesting it.¹² LECs will be allowed to establish reasonable rate elements for interconnection. These charges will be unbundled to permit customers the ability to buy competitive elements, such as transmission, from other providers or to provide these elements themselves. In lieu of a contribution charge at this time, the Commission issued a Notice of Proposed Rulemaking (NPRM) proposing modification to Part 69 rules which would eliminate the over allocation of GSF to special access.

The Commission also granted LECs limited pricing flexibility concurrent with the implementation of expanded interconnection for special access services. As discussed in Section II, LECs will be allowed to segment study areas into a number of rate zones based on traffic density characteristics.

The Commission also released a Second Notice of Proposed Rulemaking (SNPRM) in CC Docket No. 91-141 initiating two phases of investigation into switched access expanded interconnection issues. In Phase I, the Commission proposes that Tier 1 LECs offer expanded interconnection for switched access services. Such interconnection would allow competitors and end-users to offer switched transport between LEC central offices, including tandem offices, and interexchange carriers' points of presence. This would allow interconnection directly with LEC switches, subscriber lines and other portions of the LEC switched transport network. Additionally, the Commission seeks comments on the appropriate pricing flexibilities to be extended concurrent with expanded interconnection for switched access services.

¹⁰ The Commission's tentative conclusion to codify a long term rate structure for local transport services in 1995 is incompatible with a competitive local transport marketplace.

¹¹ During the course of this docket USTA proposed a workable pricing flexibility plan which could be utilized as an interim measure designed to directly address the immediate effects of special access expanded interconnection.

¹² The Commission ruled that virtual interconnection could be employed in those instances where both parties prefer such an arrangement. Aside from these cases, a waiver will be required for any other virtual arrangement. The Commission foresaw that waivers would be granted in only two circumstances: 1) a LEC demonstrates that a particular central office lacks physical space for physical interconnection; or 2) a state legislature or regulatory agency adopts a formal policy in favor of virtual collocation.

In Phase II, the Commission, responding to the interest of parties in providing switching facilities that directly compete with the functions currently offered by LEC tandem switches, proposed eliminating any barriers precluding such ability. This form of switched access competition will further the creation of a "network of networks," whereby the switched networks of LECs and others not only interconnect with one another, but also compete with one another. The current phases of this proceeding are scheduled to be completed by September, 1993.

The Commission also requested the Joint Board in CC Docket No. 80-286 to investigate whether separations changes will be necessary as a result of the actions called for in its Order and SNPRM.

In addition to the recent activity associated with switched transport and expanded interconnection, the Commission is examining regulatory reform for non-price cap LECs in CC Docket No. 92-135. USTA proposes that regulatory reform for non-price cap LECs can be accomplished via the following three methods: 1) Revised Baseline Rate of Return Regulation; 2) Streamlined Small Company Rules Extension to Common Line Tariff Filings; and 3) Optional Incentive Regulation (OIR) Plan.¹³

Revised Baseline Rate of Return Regulation refers to that regulation applied to the NECA pools and others regulated under Section 61.38 of the Commission's rules. An entity can elect to utilize such regulation for only its common line tariff or for both common line and traffic sensitive. Streamlined Small Company Rules Extension to Common Line Tariff Filings calls for filings to be made on a biennial basis utilizing historical cost and demand data. Additional pricing flexibility has been requested under CC Docket No. 92-135 for Revised Baseline Rate of Return Regulation, but not for Streamlined Small Company Extension. A company could elect Streamlined Small Company Extension for its depooled traffic sensitive tariff filing or for depooled common line and traffic sensitive tariff filings. The OIR plan calls for incentive regulation for small and mid-sized companies. The OIR plan also proposes additional pricing flexibilities. All cost affiliates of non-price cap companies would be eligible for the OIR plan.

As mentioned in Section I, preceding, the current regulatory framework often causes significant delay in the introduction of new interstate access services. USTA has developed a proposal for Streamlined Review of New Services, (See Appendix E), designed to reduce the regulatory lag when new interstate services are introduced.

¹³ The OIR plan, formerly called the Alternative Incentive Regulation (AIR) plan, details efficiency incentives and regulatory streamlining for non-price cap LECs.

The interim measures described above, applied to the existing access charge framework, at best can provide only temporary relief. Increasingly rapid technological change, evolving customer needs and increased market competitiveness mandate the type of change which can be realized only through comprehensive access reform.

V. Interstate Access Charge Plan Reform

USTA proposes that a comprehensive review of the access charge rules be completed and implemented prior to, or along with, switched access expanded interconnection. In light of the complexities of the issues involved, this review proceeding should be opened promptly. This review could be conducted in parallel with the more narrowly focused proceedings already underway, without delaying the adoption of interim measures in those proceedings. Further, USTA recommends that a comprehensive review of the separations process should be initiated subsequent to the completion of the access charge plan reform.

A. Overview

Interstate access reform must focus on providing structural flexibility, pricing flexibility and the continued support of public policy obligations. Service providers must be able to utilize these flexibilities freely in order to meet customer needs. Furthermore, service providers must not be discouraged from earning revenues beyond an arbitrarily established level.

Structural flexibility would be achieved by limiting Part 69 rate structure codification to a Public Policy access category for all LECs. Three additional access categories would be codified for non-price cap LECs. Rate elements would not be codified below these three access categories. Also, the current price cap baskets would be restructured. New service introduction would be enhanced by reducing filing intervals for new services whose projected revenue falls below a de minimus threshold.

Pricing flexibility would be achieved by matching regulatory oversight to the degree of competitiveness in individual market areas. Behavioral criteria regarding customers' ability and willingness to shift their demand would be utilized to demonstrate the competitive nature of the market area. Certain LECs would be able to demonstrate the competitive nature of their market areas by satisfying adjacency criteria. Existing zones, or, for LECs which have elected not to establish zones, existing study areas would be

classified as Initial Market Areas (IMA). Wire centers may be included in a Transitional Market Area (TMA) or certified as a Competitive Market Area (CMA) depending on the degree of competitiveness within that wire center market area. Within a CMA, LECs would realize the greatest level of flexibility.

Public policy support obligations must be reconciled with procompetitive policy objectives. The Commission's goal of promoting the growth of competition in the marketplace may undermine its established goal of promoting universal service. The basic goals encompassed in the Unity 1-A Agreement must continue. This proposal recommends minimal changes to existing support mechanisms, suggests the need to evaluate additional explicit support mechanisms, and proposes reforms in the current depreciation process. USTA advocates that all service providers assist in the recovery of universal service costs.

In addition, the comprehensive reform calls for the elimination of sharing requirements, revision to existing rules for referencing technical publications in tariffs, notice period reductions, and modifications to the requirements for cost support and justification.

B. Access Services Rate Structure Reform

The Commission's policies and rules have not kept pace with an ever changing environment. While the specificity written into the Part 69 rules may have been appropriate in the special circumstances of the early post-divestiture period, it now presents a substantial barrier to the introduction of new services and the restructuring of existing services.¹⁴ Continuing such a prescriptive structure, and the cumbersome waiver process that it generates, will prevent access customers from realizing the full benefits of competition.

The current elements codified in Part 69 are reflective of service applications (e.g., switched access or special access). The access rate structure defined within Part 69 should instead be based on access categories. An access category is a general classification into which access functionalities (e.g., transport, switching, etc.) may be logically grouped. The number of codified access categories would be limited to four. A

¹⁴ In the interexchange market the Commission's pro-competitive policy has led to a proliferation of service options from the incumbent carrier, AT&T, as well as from interexchange competitors. Detailed rules prescribing rate structures, such as those in Part 69, have never been applied to interexchange